



COMMISSION NEWS

ARIZONA CORPORATION COMMISSION, 1200 W. WASHINGTON, PHOENIX, AZ 85007

TO: EDITORS, NEWS DIRECTORS
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THE COMMISSION ISSUES DEFAULT ORDERS AGAINST GROUP THAT BILKED OVER \$2.3 MILLION FROM INVESTORS

PHOENIX – The Arizona Corporation Commission issued default orders against a Phoenix-based company and three individuals for ignoring previous orders to stop selling unregistered investment contracts such as viatical settlements, pay telephone contracts, ATMs and an investment trust. The Commission ordered Integrowth Financial Group and the following individuals to return over \$2.3 million in investor funds and to pay a total of \$100,000 in penalties:

- Richard Fandrich, formerly of Phoenix, 75
- Roger Alvin Sande of California, 68
- Donald Abernathy of Phoenix, 71

Integrowth Financial Group and Sande recruited Fandrich and Abernathy to open a Phoenix branch office in 1999. The group originally sold viatical settlements but then branched out into other unregistered and fraudulent activity, including a Ponzi scheme.

The sales group, with others, eventually established their own company, Fountain Capital Management, LLC. They shared the control of the business operations and all the commissions produced between them. In total, the respondents sold unregistered investments to at least 67 investors, most of whom lived in Arizona. None of the respondents were registered to sell securities or had the proper exemption to offer and sell securities in Arizona.

Both Integrowth and Fountain Capital ran advertisements in Phoenix newspapers, offering investments with above-market returns at “no risk.” Investors, however, were not aware of the multiple orders filed in other states against Integrowth Financial and its various salespeople.

The Commission found that of the four primary unregistered investments sold, three of them—Future First Financial, Inc., Alpha Telecom, Inc., and Chemical Trust—have been sued for fraudulent sales activity in other states. The fourth investment, Integrated Cash Systems, defaulted on its investors’ contracts and has other administrative enforcement orders against it.

Future First Financial Group, Inc.—Viatical Settlement Contracts

The Commission found that Fandrich, Sande and Abernathy sold over \$1 million of the viatical settlement contracts to Arizona investors through Future First Financial Group, a Florida-based company. The respondents group told investors that the only risk involved with the purchase of viatical policies was the risk that the insured would die at a later date, thereby reducing the expected return. They informed investors that returns could be as high as 100 percent with the investment being safe and guaranteed.

A viatical settlement contract involves the purchase of an interest in the proceeds from a life insurance policy of a terminally ill or elderly person. Various viatical companies purchase the policies at a discount and resell the benefits to investors at an amount less than the policy’s full face value. When the insured person dies, the investor receives the full face value of the policy.

On October 29, 2001, Sande was arrested in California on 38 felony counts of theft and unlicensed sales of viaticals, allegedly defrauding investors of over \$2.7 million. Sande was later sentenced to seven years in a California prison where he is currently serving time.

Alpha Telecom, Inc.—Pay Telephone Contracts

The Commission also found that Fandrich and Abernathy, touting a 14 percent annual return, sold pay telephone investment contracts in Alpha Telecom, Inc., an Oregon corporation. They told at least 34 prospective investors that the investments were insured, presenting Alpha Telecom as a stable, profitable and innovative company. But the Commission found that the state insurance coverage did not exist and that Alpha Telecom had been in trouble with at least 12 state and federal regulators.

Investors received payments of \$58.34 per month for every telephone contract they purchased, but payments eventually stopped after Alpha Telecom declared bankruptcy in August 2001. Investors were not aware of the company’s long disciplinary history with state and federal regulators, but they became aware of the bankruptcy

when payments from Alpha Telecom stopped.

Chemical Trust—Ponzi Scheme

The Commission found that Integrowth, Fandrich, Sande and Abernathy sold to at least 20 Arizona investors over \$850,000 of investment contracts in Chemical Trust, a Florida-based company. Chemical Trust allegedly made profits by purchasing U.S. Treasury notes and distressed property at discount, selling for an immediate profit. Investors believed that their investment was 100 percent guaranteed through a security bond with U.S. Guarantee, a Scottsdale, Arizona company.

In January 2000, the U.S. Securities and Exchange Commission (SEC) filed a complaint against Chemical Trust, alleging that the company misappropriated investor funds by sending it to offshore bank accounts. According to the SEC's complaint, Chemical Trust had not purchased any U.S. Treasury notes or distressed properties, and investor funds were not secured. The SEC subsequently found that, in a classic Ponzi-scheme fashion, Chemical Trust used new investor funds to pay interest to existing investors.

The Arizona Corporation Commission also found that the U.S. Guarantee was not licensed in Arizona as a surety insurer. On June 30, 2000, the Commission issued its own order against Chemical Trust and others to stop their fraudulent activity.

Integrated Cash Systems—ATM Machine Contracts

The Commission found that Fandrich and Abernathy sold at least \$88,000 worth of unregistered investment contracts involving automatic teller machines to at least four Arizona investors.

The offering documents provided by the respondents included statements that the machines would be placed with retail merchants in order to enable electronic purchase transactions at the customers' points of delivery. Investors could choose from four different service options to manage the equipment, ranging from the first that featured total investor involvement to the fourth, a "full-service" option where investors had no responsibilities with respect to the business operation.

The Commission found that the respondents sold the investment to investors who had no experience in or

knowledge of the cash terminal business, who never intended manage or to take possession of the equipment and who did not even know where the equipment was located.

Written materials provided by the respondents stated that investors would receive:

- A minimum monthly revenue equal to 12 percent of their original investment,
- A share of the monthly net profit on each machine above the base monthly payment, and
- A full return of their investment at the contract's end.

In addition, the materials stated that if the monthly revenue from the machine's operation fell below the base payment, investors could request that the service company repurchase the equipment for the original sales price or relocate the equipment to another location with the potential for a higher profit.

The Commission found that, despite its representations, Integrated Cash Systems defaulted on payments to investors and failed to repurchase the investors' machines as requested.

Investor Advisory

Before investing, people should verify the registration of sellers and investment opportunities by contacting the Arizona Corporation Commission's Securities Division at 602-542-4242 or toll free outside the Phoenix metropolitan area and Arizona at 1-866-VERIFY-9. The Division's web site also has helpful information for investors at **www.azinvestor.gov**.

The Commission's order against the named respondents will be posted to the Securities Division web site under Enforcement/Orders as soon as it is signed by all of the Commissioners. Cases against two other respondents, David A. Fazio of Phoenix and Stephen A. Hiltbrand of Mesa, are still pending before the Commission. To access the full text of the Commission's order, please check the web site in a few days:

<http://www.azinvestor.gov/enforcement/enforce-orders.asp>.

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